

## Term Deposit Facility Overview

The Term Deposit Facility is a program through which the Federal Reserve Banks offer interest-bearing term deposits to eligible institutions.

The Term Deposit Facility was established to facilitate the conduct of monetary policy by providing a tool that may be used to manage the aggregate quantity of reserve balances held by depository institutions. An increase in term deposits outstanding drains reserve balances because funds to pay for them are removed from the accounts of participating institutions for the life of the term deposit. Term deposits cannot be used to satisfy reserve balance requirements or clear payments. Term deposits will automatically be pledged as collateral to Federal Reserve Banks and so can be used to secure discount window advances and for [payment system risk purposes](#).

### Eligibility and Setup

To participate, eligible institutions must complete the steps outlined on the [Term Deposit Facility Setup](#) page, which include completing the necessary forms and designating a settlement account for term deposit transactions. An eligible institution is one that is permitted by statute to receive interest on balances held at a Federal Reserve Bank as specified in the Federal Reserve Act and Regulation D.

### Announcement

The Federal Reserve will announce offerings of term deposits in advance of the operation date. The announcement will specify the details of the operation and will be available on the Board of Governors' [website](#). Term deposits may be awarded through different formats, including a competitive single-price auction format with a non-competitive bidding option, a fixed-rate format at the interest rate specified in advance, or a floating-rate format. The interest rate paid on term deposits awarded through a floating-rate format will be the operation effective interest rate, which is determined by the average of the daily

effective rates over the term of the instrument. The daily effective rate is the sum of the value of the reference rate for that day and the spread rate for the operation.

The operation announcement for an auction will contain information about the size of the operation, along with other operation parameters. The operation announcement for a fixed-rate offering will include the interest rate to be paid, along with other operation parameters. The operation announcement for a floating-rate offering will include the reference rate and spread rate, along with other operation parameters.

Term deposits may be offered with an early withdrawal feature that allows a depository institution to obtain a return of funds prior to the maturity date subject to a penalty. The offering announcement will indicate whether the term deposits being offered include an early withdrawal feature, and will specify the penalty rate that will be used to determine the penalty for early withdrawal.

## **Submit Tender**

Between the offering open and close times on the operation date, a Term Deposit Facility participant can submit a tender for term deposits using the Term Deposit Facility application. A Term Deposit Facility participant may choose to have an agent, such as its correspondent bank, submit a tender on its behalf. A participant may revise or delete its tender up until the operation close time.

Auction Operations: A Term Deposit Facility participant can submit either a competitive tender or a non-competitive tender, but not both.

- *Competitive Tenders:* A Term Deposit Facility participant can submit only one tender for the competitive portion of an operation. A tender consists of one or more bids. The maximum number of bids that can be submitted on the tender will be defined in the operation announcement. The aggregate amount of the bids on the tender may not exceed the maximum award amount specified in the operation announcement. The dollar amount of each bid on the tender cannot be less than the announced minimum bid amount. The interest rate submitted for each bid on the tender cannot exceed the announced maximum bid interest rate. Each bid on the tender must be at a different interest rate.
- *Non-competitive Tenders:* A Term Deposit Facility participant can submit only one tender for the non-competitive portion of an operation. That tender may contain only one bid. The amount of the bid cannot exceed the maximum non-competitive bid amount and cannot be less than the minimum non-competitive bid amount. The

maximum non-competitive bid amount will be a very small fraction of the amount offered in the competitive portion of the operation. No interest rate is specified on a non-competitive tender. All non-competitive tenders will be accepted in full at the interest rate determined in the competitive auction.

Fixed-Rate Operations: A Term Deposit Facility participant can submit one tender at the interest rate specified in the operation announcement. The tender amount cannot exceed the maximum tender amount and cannot be less than the minimum tender amount.

Floating-Rate Operations: A Term Deposit Facility participant can submit one tender at the parameters specified in the operation announcement. These parameters include both the reference rate and the spread rate. The tender amount cannot exceed the maximum tender amount and cannot be less than the minimum tender amount.

Please refer to the Step-by-Step Guides for [Auction Operations](#), [Fixed-Rate Operations](#), and [Floating-Rate Operations](#) for additional information on using the Term Deposit Facility application.

## **Determining Awards**

After the tender submission close time, the Federal Reserve will review all submitted tenders for completeness and compliance with the operation parameters. All tenders that are complete and compliant are used in determining term deposit awards.

### Auction Operations:

- *Competitive Awards:* The competitive auction uses a single-price auction mechanism to determine awards. All bids received for the competitive auction will be ordered from the lowest bid interest rate to the highest bid interest rate. Starting at the lowest interest rate bid, the Federal Reserve will accept the total dollar amount bid at that interest rate and at each successively higher interest rate until (1) the aggregate amount of bids accepted equals the competitive offering amount, or (2) all bids received at interest rates that are at or below the maximum bid interest rate have been accepted. When necessary, bids at the highest accepted interest rate will be prorated. Awards subject to proration will be rounded according to the rounding convention specified in the announcement, which may cause the total amount awarded in the competitive portion of the offering to be slightly greater than the announced competitive offering amount. All Term Deposit Facility participants that have a bid accepted, either in whole or in part, will be awarded term deposits at

the same interest rate (the stop-out rate), which shall be the highest accepted interest rate in the competitive auction.

- *Non-competitive Awards:* All bids for term deposits received in the non-competitive portion of the operation will be accepted in full, and the interest rate paid will be the stop-out rate determined by the competitive auction portion of the operation.
- *Total Awards:* The total amount of awards in the operation will be the sum of the awards in the competitive and the non-competitive portions of the operation. Total awards in the operation may exceed the announced amount of the operation, due to the addition of non-competitive awards and potential rounding of competitive awards subject to proration.

Fixed-Rate Operations: All tenders that are complete and compliant with the fixed-rate operation parameters will be accepted in full. The interest rate paid on term deposits awarded through fixed-rate operations will be stated in the operation announcement in advance of each fixed-rate operation.

Floating-Rate Operations: All tenders that are complete and compliant with the floating-rate operation parameters will be accepted in full. The interest rate paid on term deposits awarded through a floating-rate format will be the operation effective interest rate, which is determined by the average of the daily effective rate over the term of the instrument. The daily effective rate is the sum of the value of the reference rate for that day and the spread rate for the operation.

## **View Results**

Public press releases will provide aggregate summary information for all Term Deposit Facility operations. They will be available on the Board of Governors' [website](#) at the time specified in the operation announcement.

## **Participant Awards**

Auction Operations: Term Deposit Facility participants that submit a tender in either the competitive or non-competitive portion of a Term Deposit Facility auction will be able to view award information for that tender within the Term Deposit Facility application on the notification date and time.

Fixed-Rate Operations: All tenders that are complete and compliant with the fixed-rate operation parameters will be accepted in full. (Participants can modify tenders up until operation close time.)

Floating-Rate Operations: All tenders that are complete and compliant with the floating-rate operation parameters will be accepted in full. (Participants can modify tenders up until operation close time.)

## **Settlement**

On the announced settlement date, the settlement account designated by a Term Deposit Facility participant will be debited for the amount of term deposits awarded. A Term Deposit Facility participant should ensure that it has placed sufficient funds in its settlement account to cover the debit. This debit will be posted after the close of the Fedwire® Funds Service in accordance with the Federal Reserve's [Payment System Risk Policy posting rules](#). Also at that time, the term deposit will automatically be pledged as collateral and so can be used to secure discount window advances and for [payment system risk purposes](#).

## **Maturity**

On the announced maturity date, the settlement account of a Term Deposit Facility participant is credited with the proceeds of the maturing term deposit and the interest payment on that deposit. The credit is posted at 8:30 a.m. ET. The term deposit ceases to be pledged as collateral that can be used to secure discount window advances and for [payment system risk purposes](#) at that time.

## **Early Withdrawal**

The offering announcement will indicate whether the term deposits being offered include an early withdrawal feature, and will specify the penalty rate that will be used to determine the penalty for early withdrawal. Term deposits that are securing an outstanding discount window loan or are necessary to satisfy a collateral requirement established by the Reserve Bank may not be withdrawn early.

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